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5 DEC 1966

MEMORANDUM FOR: Executive Director-Comptroller

SUBJECT : Study of the Procurement Systems of the CIA

REFERENCES : A. Study of the Procurement Systems of CIA by [Redacted], dated July 1966

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B. Memorandum to Executive Director-Comptroller from Inspector General dated 4 October 1966

C. Memorandum to Deputy Directors and PPB from Executive Director-Comptroller dated 7 October 1966 (Exec.Reg.No. 66-4266)

1. This memorandum is submitted in response to your request for our comments on the procurement study; Reference A, known generally as the [Redacted] Report.

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2. The report itself represents a substantial effort, particularly in the accumulation of statistical data to reflect the scope of the Agency's procurement activities. We are, of course, gratified that the OSA contracting system withstood the test of outside scrutiny and emerged as the pattern which is being proposed for installation in the rest of the Agency. While the report contains a few minor errors or misunderstandings, it is generally factual and we believe that it can be accepted as a base from which improvements can be sought. We concur with the Inspector General when he says that "even if the recommendations are not accepted the findings still indicate the need for strong corrective action". We quote this statement because we think that it identifies the greatest value the report will have.

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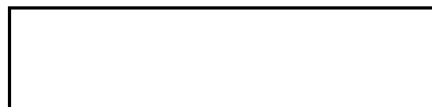
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That is, the Agency officials who are responsible for administering these programs can, with the data available, determine the course of action which should now be taken. Certain of the recommendations contained in the report are valid and should be followed, but on the whole we think that the solutions which are proposed are disproportionate to the problem. The recommendations are quite broad and involve complete changes in concept in Agency management. They propose functional and organizational changes which involve all of the Deputy Directorates, and the establishment of a new policy position in the immediate office of a Deputy Director. The report seems to have lost sight of the fact that the focus of the effort is an activity in the Office of Logistics which involves only a handful of people. The implementation of the recommendations would require a much greater application of manpower, some of it at very high levels (such as the Special Assistant to the DD/S) and some of it in hard-to-find categories (such as the engineer who would be assigned to the industrial auditors as a consultant). We feel that the changes which are proposed are far too sweeping for the problems which exist, and that a more balanced program of improvement should be undertaken before such extraordinary corrective measures are considered.

A. RECOMMENDATION: Designate a Special Assistant to the DD/S for Procurement

In several places the report states that there is no single person who is responsible for procurement policies and procedures. It is proposed that this be corrected by designating a Special Assistant to the DD/S for Procurement. In the first place, we cannot concur in the premise upon which the recommendation is based. It has always been well established that the Director of Logistics is the officer responsible for the development and implementation of procurement policies and procedures. This responsibility is inherent in [redacted] and (2) and in other statements in both [redacted] and [redacted]. The recommendation also stipulates (pp IV 21) that the Special Assistant to the DD/S for Procurement should have a staff and assume functions which go beyond procurement review. This seems to be an unnecessary duplication of effort in an era when T/O's are being cut rather than enlarged. Further, the proposal contemplates that the Special Assistant for Procurement would have the authority to adjudicate differences between the contracting officers, the

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auditors, and the project officers. He would thus have the authority to make decisions which must now be made by the Director of Logistics, the Director of Finance, or the command components who are responsible for the management of the programs. We do not believe that the Director of Logistics and the Director of Finance should be insulated from the DD/S or that the authority of the operating component should be diluted. Slowness of reaction is one of the report's major criticisms of the present system, and the addition of a new echelon of staff supervision cannot possibly result in more rapid response to requirements. This is particularly true when one recognizes that the Special Assistant for Procurement would probably be in the Headquarters Building, the contracting officers and auditors would be in Ames Building, and the project officers could be located anywhere. We believe the objective can be more efficiently accomplished by specifically charging the Director of Logistics with the responsibility for improvement rather than by creating a duplication of effort and a diffusion of responsibility. Above all, we feel that it would be a mistake to establish a Special Assistant to the DD/S for Procurement, and simultaneously make the DD/S&T responsible for R&D procurement. With the other controls already existing, this would result in a total diffusion of responsibility.

B. RECOMMENDATION: Centralize all R&D Contracting in the DD/S&T

Probably the most far-reaching recommendation in the report was the proposal to transfer the responsibility for all R&D contracting from the Office of Logistics to the DD/S&T. (It is our understanding that the report contemplates no change in the OSA system which was highly commended.) We believe that the report defeated its own proposal by acknowledging that TSD (DD/P) contracting should not be included. TSD contracting will have to be done somewhere, and if it is not included in the same structure which manages the DD/S&T contracting, it can only be assumed that it will continue to be handled in the Office of Logistics or in TSD itself. There is also the question of procurement for NPIC (DD/I) which is not fully resolved. In fact, although the report proposes that R&D contracting be centralized in DD/S&T, the net effect of the proposal would be to decentralize the system and require a much greater application of manpower. At the present time there are only two systems in the Agency

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(although the report at one place said there were three and in another place that there were five). These two are (a) the NRO system and (b) the Agency system [redacted] managed by the Director of Logistics. Actually, the NRO programs of OSA should not be considered in statistics which are used for a long-range Agency decision since the level of effort in these programs is being significantly reduced and, in any event, they have little relationship to or impact on the procurement being conducted elsewhere in the Agency. If the R&D contracting is ultimately transferred to the DD/S&T, we feel that the OSA experience in this field should be carefully considered. The transfer of the contracting officers from the Office of Logistics to the DD/S&T would not in itself create an R&D procurement system. It would also be necessary to transfer personnel from the Industrial Contract Auditing Division of the Office of Finance and perhaps establish a separate disbursing function as well. The team approach to procurement would be much more effective than the present system used by the Office of Logistics, but we are inclined to believe that it should remain under the cognizance of the Deputy Director for Support as a support service for the entire Agency. It may be useful to examine the pros and cons of recognizing the procurement function as sufficiently and uniquely technical and complex to justify a separate organization and career service structure.

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C. RECOMMENDATION: That a Contract Review Board be Established

We are not aware of any existing problem which would have been avoided by a Contract Review Board. The report itself identified no problem of internal control. Most of the criticisms concern coordination and procedures at the working level. Consequently, we are not sure what is to be accomplished by a review board. There is already a significant review of all programmed activities in the Agency, and we doubt that the survey team fully appreciated this. The Agency's planning and programming system assures careful consideration of each item included in a component's budget, and large items are included as separate line items. After the Agency budget is approved, individual transactions are subject to further review and approval under carefully prescribed approval procedures before the contracting officer can negotiate the contract. The Deputy Director concerned

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is responsible for authorizing the activity; the Director of Logistics is responsible for the contracting; the Office of General Counsel participates in all contracts; the Director of Finance is responsible for all contract auditing and disbursing; and the entire arrangement is subject to review by the Audit Staff. We do not see how a Contract Review Board could add anything to that level of responsibility. Rather, we would propose that Agency management clearly charge those offices with the specific improvements it feels should be effected in the field of contract management.

D. RECOMMENDATION: Establish a Management Information System

In several places the report refers to a need for a management information system, and the Inspector General discussed this in depth in paragraph 10 of his memorandum. We concur in this requirement. DD/S&T is attempting to develop an internal information system to advance internal program management, as well as contribute to a broader system which will facilitate staff review in our immediate office. However, we do not concur in paragraph 10-d of the Inspector General's covering memorandum in which he suggests that, since his own office does not have expertise in the field of automatic data processing, consideration be given to employing an outside consultant, and perhaps the author of the report, to assist in the development of information systems in the areas mentioned. It is our view that the Agency has a significant capability in the ADP field. Automation of programs is obviously a permanent, long-range objective, and any talent which is needed but not now available should be sought in the form of staff employees.

E. RECOMMENDATION: Establish a central repository of information concerning contractors and their performance.

We concur in the need for such a repository and will be willing to cooperate in the development of appropriate procedures.

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